MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BFN2114 – INVESTMENT

(All sections / Groups)

07 FEBRUARY 2023
2:30 p.m – 4:30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 8 pages with 2 sections (excluding the cover page).
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific and financial calculators.
4. Please write all your answers in the Answer Booklet provided.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

Q1. The basic distinction between a primary and a secondary market is

a. proceeds from sales in the primary market go to the current owner of a security; proceeds in secondary market go to the original owner.
b. primary markets involve direct dealings within regional exchanges.
c. only new securities are sold in the primary market; only outstanding securities are bought and sold in the secondary market.
d. primary markets deal exclusively in bonds; secondary markets deal primarily in common stock.
e. None of the above.

Q2. A properly selected sample for use in constructing a market indicator series will consider the sample's source, size and

a. Breadth.
b. Average beta.
c. Value.
d. Variability.
e. Dividend record.

Q3. FTSE Bursa Malaysia KLCI uses the real time and closing prices sourced from Bursa Malaysia to calculate the FTSE Bursa Malaysia KLCI. The index is based on

a. Value weighted index.
b. Price weighted index.
c. Unweighted index.
d. Fundamental weighted index.
e. None of the above.

Q4. Investors can leverage their stock transactions with the use of

a. Margin orders
b. Stop loss orders
c. Limit orders
d. Market orders
e. Specialists

Continued ...

Q5. Which of the following behaviors is consistent with escalation bias?

a. Buying more of a stock as it increases in value.
b. Buying more of a stock as it decreases in value.
c. Selling a stock as it decreases in value.
d. Selling a stock as it increases in value.
e. Buying or selling a stock as it increases in value.

Q6. Which of the following is correct?

a. If estimated value > Market price, you should buy.
b. If estimated value > Market price, you should sell.
c. If estimated value < Market price, you should sell.
d. If estimated value < Market price, you should buy.
e. Choices a and c.

Q7. The P/E ratio is determined by

a. The required rate of return.
b. The expected dividend payout ratio.
c. The expected growth rate of dividends.
d. Choices a and b
e. All of the above

Q8. To analysis the industries, below is/are the required components:

a. Cyclical impacts.
b. Structural impacts.
c. Industry's life cycle.
d. Porter analysis.
e. All of the above

Q9. To estimate the Cost of Capital, what are the factors that drive the equity risk:

a. Business risk.
b. Financial risk.
c. Liquidity risk.
d. Country risk.
e. All of the above

Continued ...

Q10. At the economic downturn, the future earnings of _____ are more likely to outshine others.

a. Defensive companies.
b. Cyclical companies.
c. Growing companies.
d. Stagnant companies.
e. None of the above

Q11. Given TM's beta of 1.10 and a risk-free rate of 5 percent, what is the expected rate of return assuming a 10 percent market return?

a. 21.5%
b. 10.5%
c. 5.5%
d. 15.5%
e. 16.5%

Q12. A friend has some reliable information that the stock of Sime Darby Plantation Berhad is going to rise from RM 43.00 to RM 50.00 per share over the next year. You know that the annual return on the FBM KLCI has been 11% and the 90-day T-bill rate has been yielding 5% per year over the past 10 years. If beta for Sime Darby Plantation Berhad is 1.5, will you purchase the stock?

a. Yes, because it is overvalued.
b. Yes, because it is undervalued.
c. No, because it is undervalued.
d. No, because it is overvalued.
e. Yes, because the expected return equals the estimated return.

Q13. If, for the FBM KLCI, the profit margin was 0.30 and the equity turnover ratio was 11, the return of equity (ROE) would be:

a. 0.033%
b. 3.300%
c. 33.00%
d. 36.70%
e. 333.00%

Continued ...

Q14. The dividend payout ratio for the aggregate market is 55 percent, the required rate of return is 15 percent, and the expected growth rate for dividends is 7 percent. Compute the current earnings multiple.

a. 3.93
b. 78.6
c. 6.88
d. 39.3
e. None of the above

Q15. Assume that the dividend payout ratio will be 75 percent when the rate on long-term government bonds falls to 8 percent. Since investors are becoming more risk averse, the equity risk premium will rise to 7 percent and investors will require a 15 percent return. The return on equity will be 12 percent. What is the expected sustainable growth rate?

a. 9.0%
b. 7.2%
c. 6.0%
d. 3.0%
e. 3.6%

Q16. Which of the following is not considered an assumption of technical analysis?

a. Market value is determined solely by supply and demand.
b. Supply and demand are governed by both rational and irrational factors.
c. Security prices tend to move in trends that persist for an appreciable length of time.
d. Stock prices follow a random walk.
e. Changes in trend are caused by the shifts in supply and demand relationships.

Q17. Technical analysts feel that financial accounting statements lack information, or report it in a way that makes comparisons difficult. Which of the following does not constitute a problem?

a. Detailed information concerning sales and expenses by product line.
b. Statements of change in financial position.
c. Alternative ways of reporting expenses.
d. Alternative ways of reporting assets and liabilities.
e. The availability of psychological and nonquantitative variables.

Continued ...

Q18. The following best describe speculative stocks:

a. High probability of low or negative rates of return and a low probability of normal or high rates of return. Assets which involved great risk but those that also have a possibility of great gain.
b. Greater changes in rates of return than the overall market rates of return and high betas. Sales and earnings will be heavily influenced by aggregate business activity.
c. Rate of return is not expected to decline or decline less than the overall market decline. Stocks with low or negative systematic risk.
d. All of the above.
e. None of the above.

Q19. In examining the properties of world market currencies or the spreads between currencies, an analyst is most likely to use time series properties to determine all the following, except

a. Volatility.
b. Overbought condition.
c. Resistance-support levels.
d. Trend.
e. An oversold condition.

Q20. When forecasting industry sales it can be useful to

a. Utilize the industry life cycle.
b. Use input-output analysis.
c. Use the relationship between an industry and the aggregate economy.
d. All of the above.
e. None of the above.

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SECTION B (60 marks): Answer ALL questions.

QUESTION 1

a) Moving to 2023, the challenging year for most of the industries. Based on your analysis, what will be the growth industry in the next decade? Justify your giving at least **FOUR (4)** points.

(12 marks)

b) The market is in the bearish view, hence, you decided to short sale 1000 shares of Maybank Berhad when it is trading at RM 8.63. The margin requirement is 60% and assuming there is no commission and the maintenance margin is 30%. Given the information available, specify the share price which you will be receiving a margin call.

(8 marks)

(Total: 20 marks)

QUESTION 2

a) Due to the increasing inflation rate, the US FED will continue hiking the interest rate which lead to the appreciation of USD. Thus, you are urged to invest in order to protect against the uncertainties. You are required to understand the investment strategies based on the life cycle phases. Evaluate the different phases in details.

(16 marks)

b) You expect that the share of Maxis Bhd is going to rise from RM 20 to RM 22.15 per share over the next year. You know that the annual return on the FBM KLCI has been 11.25% and the 90-day T-bill rate has been yielding 4.75% per year over the past 10 years. If beta for Maxis Bhd is 1.25, will you purchase the share? Is the share overvalued or undervalued?

(4 marks)

(Total: 20 marks)

Continued ...

QUESTION 3

a) Genting Bhd paid a dividend yesterday for RM 1.00. They expect to pay dividends annually at a constant 3% annual growth rate indefinitely. If the required rate of return on this investment is 6%, what is the current value of this share?

(5 marks)

b) A company has a dividend payout ratio of 40 percent. If the company's return on equity is 12 percent, what is the expected growth rate if no new outside financing is used?

(5 marks)

Continued ...

c) IHH Healthcare (IHH MK)

IHH Healthcare should benefit from the gradual rebound in medical tourism. Medical tourists to Singapore and Malaysia are now at 17% and 1.5% of pre-pandemic levels, following the upliftment of border restrictions in both countries since April. This, on top of the resilient demand for healthcare services, as well as continuing efforts to minimise its exposure to non-TRY revenue (32% of 1H22 total Turkey turnover vs 1H21's 28%) from its Eastern Europe segment, justifies our call. Medical tourism yet to return to full potential. IHH expects the recovery of medical tourist numbers to be its key growth driver in the quarters ahead. In 2Q, medical tourists going to Singapore and Malaysia were at 17% and 1.5% of levels recorded prior to COVID-19, ie post reopening of borders in April. As the Singapore segment booked numbers that were stronger than what management anticipated (due to the upswing in foreign patients), we have tweaked our revenue intensity assumption for FY22 to SGD12,848, from SGD12,000. Impact of MFRS 129 is minimal. We expect IHH's depreciation and amortisation costs to increase by 4% YoY in 2023, until the effect of MFRS 129 is watered down. Although there could be a potential impairment risk – given the previous higher restated amounts of non-monetary items under MFRS 129 – we regard this as a one-off entry, and somewhat similar to the net monetary gain (amounting to MYR295.5m) observed in 2Q22. Cash flow. On 27 Jul, IHH completed the redemption of USD500m (MYR2,158m) in perpetual securities via its existing cash balance and loan drawdowns. From the perspective of cash flow, the restructuring exercise will allow the group to pare down its borrowing cost to 3.01% (floating) from 4.25% (fixed), and provide interest payments by up to 50%. Assuming the company applies a 50:50 cash:loan ratio to fund the redemption exercise, our 2022 net gearing ratio assumption would be adjusted to 0.34, from 0.14. We trim FY22-23F earnings by 9% and 13%, after factoring in higher depreciation charges ahead, as well as a potentially weak topline from its Turkish unit. These, however, should be offset by robust revenue intensity growth from the foreign patient load. Key downside risks: An unfavourable Supreme Court ruling with regards to the acquisition of Fortis, lower-than-expected patient volumes and revenue intensity, and higher-than-expected operating costs.

(Source: RHB Investment Bank, 28 August 2022)

Given the above analysis report, what is your recommendations to the investors on their investment strategy: Buy, Sell, Hold, Reduce, Increase or Maintain by applying Three-Step Valuation Approach?

(10 marks)

(Total: 20 marks)

End of Paper